

**Marcellus Community Schools
Marcellus, Michigan**

**Annual Financial Statements
and
Auditors' Report**

June 30, 2008

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Marcellus Community Schools
Members of the Board of Education and Administration
June 30, 2008

Members of the Board of Education

Christine Nofsinger	President
Paula Johnson	Vice President
Kelli Myers	Treasurer
Timothy Henry	Secretary
David Bowlby	Trustee
Norman Carlson	Trustee
Katherine Shugars	Trustee

Administration

Ron Herron	Superintendent
Bill Markovich	Principal – High School
Mary McCrumb	Principal – Middle Schools
Melinda Bohan	Principal – Primary School
Nanette Pauley	Principal – Volinia Outcome

Independent Auditors' Report

To the Board of Education
Marcellus Community Schools
Marcellus, Michigan

We have audited the accompanying financial statements of the governmental activities, each major fund and the aggregate remaining fund information of Marcellus Community Schools as of and for the year ended June 30, 2008, which collectively comprise the School District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Marcellus Community Schools' management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Marcellus Community Schools as of June 30, 2008, and the respective changes in financial position for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated November 10, 2008, on our consideration of the Marcellus Community Schools' internal control over financial reporting and on our tests of its compliance with certain laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Governmental Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis and budgetary comparison information identified in the table of contents are not a required part of the basic financial statements but are supplementary information required by the accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Marcellus Community Schools' basic financial statements. The accompanying other supplemental information listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Yeo & Yeo, P.C.

Kalamazoo, Michigan
November 10, 2008

Marcellus Community Schools
Management's Discussion and Analysis
June 30, 2008

This section of the Marcellus Community Schools annual financial report presents our discussion and analysis of the School District's financial performance during the year ended June 30, 2008. Please read it in conjunction with the School District's financial statements, which immediately follow this section.

Using this Annual Report

This annual report consists of a series of financial statements and notes to those statements. These statements are organized so the reader can understand the Marcellus Community School District financially as a whole. The *Government-wide Financial Statements* provide information about the activities of the whole School District, presenting both an aggregate view of the School District's finances and a longer-term view of those finances. The fund financial statements provide the next level of detail. For governmental activities, these statements tell how services were financed in the short term as well as what remains for future spending. The fund financial statements look at the School District's operations in more detail than the government-wide financial statements by providing information about the School District's most significant fund – the General Fund with all other funds presented in one column as non-major funds. The remaining statement, the statement of fiduciary net assets, presents financial information about activities for which the School District acts solely as an agent for the benefit of students and parents. The annual report is arranged as follows:

Management's Discussion and Analysis (MD&A)
(Required Supplemental Information)

Basic Financial Statements

District-wide Financial Statements

Fund Financial Statements

Notes to the Basic Financial Statements

(Required Supplemental Information)
Budgetary Information for General Fund

Other Supplemental Information

Marcellus Community Schools
Management's Discussion and Analysis
June 30, 2008

Reporting the School District as a Whole – Government-wide Financial Statements

The statement of net assets and the statement of activities, which appear first in the School District's financial statements, report information about the School District as a whole using the accrual basis of accounting, which is similar to the accounting used by most private sector companies. The statement of net assets includes all of the School District's assets and liabilities. All of the current year's revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid.

These two statements report the School District's net assets and how they have changed. Net assets – the difference between assets and liabilities, as reported in the statement of net assets – is one way to measure the School District's financial health, or position. Over time, increases or decreases in the School District's net assets – as reported in the statement of activities – are indicators of whether its financial health is improving or deteriorating. The relationship between revenues and expenses is the School District's operating results. However, the School District's goal is to provide services to our students, not to generate profits as commercial entities do. One must consider many other non-financial factors, such as the quality of the education provided and the safety of the schools to assess the overall health of the School District.

The statement of net assets and statement of activities report the governmental activities for the School District, which encompass all of the School District's services, including instruction, support services, community services, athletics, and food services. Property taxes, unrestricted State aid (foundation allowance revenue), and State and federal grants finance most of these activities.

Reporting the School District's Most Significant Funds – Fund Financial Statements

The School District's fund financial statements provide detailed information about the most significant funds – not the School District as a whole. Some funds are required to be established by State law and by bond covenants. However, the School District establishes many other funds to help it control and manage money for particular purposes (the Food Service and Athletics Funds are examples) or to show that it's meeting legal responsibilities for using certain taxes, grants, and other money (such as bond-funded construction funds used for voter-approved capital projects). The governmental funds of the School District use the following accounting approach:

Governmental funds – All of the School District's services are reported in Governmental funds. Governmental fund reporting focuses on showing how money flows into and out of funds and balances left at year end that are available for spending. They are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the operations of the School District and the services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the School District's programs. We describe the relationship (or differences) between governmental activities (reported in the statement of net assets and the statement of activities) and governmental funds in reconciliation.

Marcellus Community Schools
Management's Discussion and Analysis
June 30, 2008

The School District as Trustee-Reporting the School District's Fiduciary Responsibilities

The School District is the trustee, or fiduciary, for its student activity funds. All of the School District's fiduciary activities are reported in separate statements of fiduciary net assets. We exclude these activities from the School District's other financial statements because the School District cannot use these assets to finance its operations. The School District is responsible for ensuring that the assets reported in these funds are used for their intended purposes.

The School District as a Whole

Recall that the statement of net assets provides the perspective of the School District as a whole. Table 1 provides a summary of the School District's net assets as of June 30, 2008 and 2007.

TABLE 1

	Governmental Activities	
	2008	2007
Assets		
Current and other assets	\$ 3,009,534	\$ 1,946,284
Property and equipment	4,579,657	4,761,890
Total assets	<u>7,589,191</u>	<u>6,708,174</u>
Liabilities		
Current liabilities	2,649,582	1,178,097
Long-term liabilities	6,608,805	7,571,358
Total liabilities	<u>9,264,404</u>	<u>8,749,455</u>
Net Assets		
Invested in property and equipment – Net of related debt	(2,376,714)	(2,682,973)
Restricted	397,080	295,590
Unrestricted	304,421	346,102
Total net assets (deficit)	<u>\$ (1,675,213)</u>	<u>\$ (2,041,281)</u>

The above analysis focuses on the net assets (see Table 1).

Marcellus Community Schools
Management's Discussion and Analysis
June 30, 2008

The results of this year's operations for the School District as a whole are reported in the statement of activities (see Table 2), which shows the sources of revenue for the fiscal year 2007/08 and fiscal year 2006/07.

TABLE 2	Governmental Activities	
	2008	2007
Revenue		
Program Revenue		
Charges for services	\$ 163,300	\$ 191,937
Operating grants	987,946	1,098,446
General revenue		
Property taxes	1,611,845	1,518,243
State foundation allowance	6,134,502	6,430,378
Other	78,494	129,927
Total Revenue	<u>8,976,087</u>	<u>9,368,931</u>
Functions/Program Expenses		
Instruction	4,356,264	4,495,937
Support services	3,032,616	3,264,138
Food services	401,544	417,562
Athletic activities	219,646	209,674
Community services	20,489	3,843
Depreciation	182,233	239,998
Interest on long-term debt	371,785	384,893
Total Expenses	<u>8,584,577</u>	<u>9,016,045</u>
Increase (decrease) in net assets	<u>\$ 391,510</u>	<u>\$ 352,886</u>

Property taxes for operations and unrestricted State aid constitute the vast majority of School District operating revenue sources. The Board of Education and Administration must annually evaluate the needs of the School District and balance those needs with State-prescribed available unrestricted resources.

Marcellus Community Schools
Management's Discussion and Analysis
June 30, 2008

The School District's Funds

As we noted earlier, the School District uses funds to help it control and manage money for particular purposes. Looking at funds helps the reader consider whether the School District is being accountable for the resources taxpayers and others provide and may provide more insight into the School District's overall financial health.

In the General Fund, our principal operating fund balance decreased \$85,799, which includes a prior period adjustment of \$26,602, to \$592,741. The fund balance change is \$37,910 more than projected, and is the result of prior year tax adjustments, otherwise this amount would be significantly less. We must continue to tighten controls on expenditures; and find new ways to increase our revenue streams. This must occur within the next 12 months.

General Fund Budgetary Highlights

Over the course of the year, the School District revises its budget as it attempts to deal with unexpected changes in revenues and expenditures. State law requires that the budget be amended to ensure that expenditures do not exceed appropriations. The final amendment to the budget was actually adopted in June of 2008. (A schedule showing the School District's original and final budget amounts compared with amounts actually paid and received is provided in required supplementary information of these financial statements).

There were significant budget amendments during this year, in order to correct the mis-allocated funds to FID numbers and to meet all the new audit standards necessary to meet state financial requirements.

Capital Assets and Debt Administration

Capital Assets

At June 30, 2008, the School District had \$10,922,672 invested in capital assets, including land, buildings, and furniture and equipment.

	2008	2007
Assets not being depreciated – Land	\$ 100,000	\$ 100,000
Building and building improvements	7,176,928	7,176,928
Furniture and equipment	2,774,359	2,774,359
Buses and other vehicles	<u>871,385</u>	<u>871,385</u>
Total capital assets	10,922,672	10,922,672
Less accumulated depreciation	<u>(6,343,015)</u>	<u>(6,160,782)</u>
Net capital assets	\$ <u>4,579,657</u>	\$ <u>4,761,890</u>

Marcellus Community Schools
Management's Discussion and Analysis
June 30, 2008

Debt

At the end of this year, the School District had \$6,740,000 in General Obligation Bonds outstanding versus \$7,255,000 last year – a decrease of 7.1 percent.

The School District's General Obligation Bond rating continues to be "AAA" from Standard & Poor's Corporation and "AAA" from Moody's Investor Services. The State limits the amount of general obligation debt that schools can issue to 15 percent of the assessed value of all taxable property within the School District's boundaries. If the School District issues "Qualified Debt," that is debt backed by the State of Michigan, such obligations are not subject to this debt limit. The School District's outstanding unqualified general obligation debt of \$6,740,000 is below this \$19,084,951 statutorily imposed limit.

Other obligations include accrued vacation pay and sick leave. We present more detailed information about our long-term liabilities in the notes to the financial statements.

Economic Factors and Next Year's Budgets and Rates

Our elected officials and administration consider many factors when setting the School District's 2008/09 fiscal year budget. There are many important factors affecting the budget, two of which are our student count and state per-pupil foundation allowance. This year our student count dipped to a blended count of 961. This was a reduction of 29 students, and equates to a loss of approximately \$280K, which is 3.6 percent of total General Fund revenue allowance. Another huge factor has been the 36 percent increase in the cost of fuel and the 10 percent increase in the cost of health care benefits. As a result, the School District funding is heavily dependent on the State's ability to fund these local school increases in operational cost. Based on early enrollment data at the start of the 2008 school year, we continue to have declining student counts which will significantly affect the 2008/09 budget. Ice the finial student count and related per pupil funding is validated, we will need to amend the budget if actual School District resources are not sufficient to fund original appropriations.

The Board of Education is aware of and was advised that significant cuts or new revenue stream would need to be made. The Board and Administration responded with plans of reducing building budgets, not purchasing a bus for the second year, not replacing some staff positions from early retirements and attrition, looking at consolidation opportunities and increasing revenue through Sinking Fund. These steps would help in stabilizing our budget and provide opportunity to increase our future fund balance.

Marcellus Community Schools
Management's Discussion and Analysis
June 30, 2008

Management projects a slight decrease in total revenue for the 2008-2009 school year, based on the projected loss of 14 FTE' of state funding and a lower Pre-School funding allocation. The Board expects it will still consume fund equity, but is committed to finding ways to balance the budget. The Board of Education is continuing to develop a strategy to reduce spending to maintain the fiscal health of the School District.

Contacting the School District's Financial Management

This financial report is designed to provide the School District's citizens, taxpayers, customers, investors, and creditors with a general overview of the School District's finances and to demonstrate the School District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Superintendent's office at 305 W. Arbor, Marcellus, Michigan 49067.

Marcellus Community Schools
Statement of Net Assets
June 30, 2008

	<u>Governmental Activities</u>
Assets	
Cash	\$ 1,608,504
Due from other governmental units	1,249,437
Inventory	41,583
Prepaid items	1,859
Bond issuance costs	108,151
Capital assets not being depreciated	100,000
Capital assets - net of accumulated depreciation	<u>4,479,657</u>
 Total assets	 <u>7,589,191</u>
Liabilities	
Accounts payable	39,944
State aid anticipation note payable	1,000,000
Due to other governmental units	102,001
Payroll deductions and withholdings	34,852
Accrued expenditures	116,096
Accrued salaries payable	700,086
Noncurrent liabilities	
Due within one year	662,620
Due in more than one year	<u>6,608,805</u>
 Total liabilities	 <u>9,264,404</u>
Net Assets (Deficit)	
Invested in capital assets, net of related debt	(2,376,714)
Restricted for:	
Debt service	397,080
Unrestricted	<u>304,421</u>
 Total net assets (deficit)	 <u>\$ (1,675,213)</u>

See Accompanying Notes to Financial Statements

Marcellus Community Schools
Statement of Activities
For the Year Ended June 30, 2008

Functions/Programs	Program Revenues			Net Revenue (Expense) and Changes in Net Assets
	Expenses	Charges for Services	Operating Grants and Contributions	
Governmental activities				
Instruction	\$ 4,356,264	\$ -	\$ 760,779	\$ (3,595,485)
Supporting services	3,032,616	-	-	(3,032,616)
Food services	401,544	123,848	222,550	(55,146)
Athletic activities	219,646	39,452	4,617	(175,577)
Community services	20,489	-	-	(20,489)
Depreciation	182,233	-	-	(182,233)
Interest on long-term debt	371,785	-	-	(371,785)
Total governmental activities	<u>\$ 8,584,577</u>	<u>\$ 163,300</u>	<u>\$ 987,946</u>	<u>(7,433,331)</u>
General revenues				
Property taxes, levied for general purposes				759,457
Property taxes, levied for debt service				852,388
State aid - unrestricted				6,134,502
Interest and investment earnings				17,963
Other				<u>60,531</u>
Total general revenues				<u>7,824,841</u>
Change in net assets				<u>391,510</u>
Net assets (deficit) - beginning				(2,041,281)
Prior period adjustment				<u>(25,442)</u>
Net assets (deficit) - beginning, as restated				<u>(2,066,723)</u>
Net assets (deficit) - ending				\$ (1,675,213)

See Accompanying Notes to Financial Statements

Marcellus Community Schools
Governmental Funds
Balance Sheet
June 30, 2008

	General Fund	Nonmajor Governmental Funds	Total Governmental Funds
Assets			
Cash	\$ 1,210,776	\$ 397,728	\$ 1,608,504
Due from other governmental units	1,249,437	-	1,249,437
Inventory	39,535	2,048	41,583
Prepaid items	1,859	-	1,859
	<u>1,859</u>	<u>-</u>	<u>1,859</u>
 Total assets	 <u>\$ 2,501,607</u>	 <u>\$ 399,776</u>	 <u>\$ 2,901,383</u>
Liabilities and Fund Balance			
Liabilities			
Accounts payable	\$ 35,127	\$ 4,817	\$ 39,944
State aid anticipation note payable	1,000,000	-	1,000,000
Due to other governmental units	102,001	-	102,001
Payroll deductions and withholdings	34,852	-	34,852
Accrued expenditures	36,800	-	36,800
Accrued salaries payable	700,086	-	700,086
	<u>700,086</u>	<u>-</u>	<u>700,086</u>
 Total liabilities	 <u>1,908,866</u>	 <u>4,817</u>	 <u>1,913,683</u>
 Fund Balance			
Reserved for inventory	39,535	-	39,535
Reserved for prepaid items	1,859	-	1,859
Reserved for debt service	-	397,080	397,080
Other undesignated (deficit)	551,347	(2,121)	549,226
	<u>551,347</u>	<u>(2,121)</u>	<u>549,226</u>
 Total fund balance	 <u>592,741</u>	 <u>394,959</u>	 <u>987,700</u>
 Total liabilities and fund balance	 <u>\$ 2,501,607</u>	 <u>\$ 399,776</u>	 <u>\$ 2,901,383</u>

See Accompanying Notes to Financial Statements

Marcellus Community Schools
Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Assets
June 30, 2008

Total fund balances for governmental funds	\$ 987,700
Total net assets for governmental activities in the statement of net assets is different because:	
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	
Capital assets not being depreciated	100,000
Capital assets - net of accumulated depreciation	4,479,657
Other long-term assets are not deferred in the governmental funds	
Bond issuance costs	108,151
Certain liabilities are not due and payable in the current period and are not reported in the funds.	
Accrued interest	(79,296)
Long-term liabilities applicable to governmental activities are not due and payable in the current period and accordingly are not reported as fund liabilities.	
Compensated absences	(125,054)
Bonds payable	(6,843,780)
Special termination benefits	(190,000)
Other loans payable and liabilities	<u>(112,591)</u>
Net assets (deficit) of governmental activities	<u>\$ (1,675,213)</u>

Marcellus Community Schools
Governmental Funds
Statement of Revenues, Expenditures and Changes in Fund Balances
For the Year Ended June 30, 2008

	General Fund	Nonmajor Governmental Funds	Total Governmental Funds
Revenues			
Local sources	\$ 825,818	\$ 1,029,225	\$ 1,855,043
State sources	6,680,580	23,330	6,703,910
Federal sources	214,701	199,221	413,922
	<u>7,721,099</u>	<u>1,251,776</u>	<u>8,972,875</u>
Expenditures			
Current			
Education			
Instruction	4,377,389	-	4,377,389
Supporting services	3,002,286	-	3,002,286
Food services	-	401,573	401,573
Athletic activities	-	219,646	219,646
Community services	20,489	-	20,489
Capital outlay	30,618	-	30,618
Debt service			
Principal	81,971	485,000	566,971
Interest and other expenditures	46,560	303,452	350,012
Bond issuance costs	-	61,216	61,216
Payment to bond refunding escrow agent	-	45,000	45,000
	<u>7,559,313</u>	<u>1,515,887</u>	<u>9,075,200</u>
Total expenditures	<u>7,559,313</u>	<u>1,515,887</u>	<u>9,075,200</u>
Excess (deficiency) of revenues over expenditures	<u>161,786</u>	<u>(264,111)</u>	<u>(102,325)</u>

See Accompanying Notes to Financial Statements

Marcellus Community Schools
Governmental Funds
Statement of Revenues, Expenditures and Changes in Fund Balances
For the Year Ended June 30, 2008

	General Fund	Nonmajor Governmental Funds	Total Governmental Funds
Other Financing Sources (Uses)			
Proceeds from refinancing debt	-	2,915,000	2,915,000
Payment to bond refunding escrow agent	-	(3,010,074)	(3,010,074)
Premium on issuance of bonds	-	166,117	166,117
Insurance recoveries	3,213	-	3,213
Transfers in	-	307,871	307,871
Transfers out	(224,196)	(83,675)	(307,871)
	<u>(220,983)</u>	<u>295,239</u>	<u>74,256</u>
Total other financing sources (uses)			
	<u>(59,197)</u>	<u>31,128</u>	<u>(28,069)</u>
Net change in fund balance			
	<u>(59,197)</u>	<u>31,128</u>	<u>(28,069)</u>
Fund balance - beginning	678,540	362,671	1,041,211
Prior period adjustment	(26,602)	1,160	(25,442)
	<u>651,938</u>	<u>363,831</u>	<u>1,015,769</u>
Fund balance - beginning, as restated			
	<u>651,938</u>	<u>363,831</u>	<u>1,015,769</u>
Fund balance - ending	<u>\$ 592,741</u>	<u>\$ 394,959</u>	<u>\$ 987,700</u>

See Accompanying Notes to Financial Statements

Marcellus Community Schools
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances
of Governmental Funds to the Statement of Activities
For the Year Ended June 30, 2008

Net change in fund balances - Total governmental funds	\$ (28,069)
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Total change in net assets reported for governmental activities in the statement of activities is different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.

Depreciation expense	(182,233)
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Expenses are recorded when incurred in the statement of activities.

Interest	(16,273)
Special termination benefits	20,000
Compensated absences	1,442

Bond and note proceeds and capital leases are reported as financing sources in the governmental funds and thus contribute to the change in fund balance. In the statement of net assets, however, issuing debt increases long-term liabilities and does not affect the statement of activities. Similarly, repayment of principal is an expenditure in the governmental funds but reduces the liability in the statement of net assets. Also, governmental funds report the effect of issuance costs, premiums, discounts and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities.

Debt issued	(3,081,117)
Repayments of long-term debt	3,511,971
Defer bond issuance costs	171,289
Amortization of premiums	(5,500)

Change in net assets of governmental activities	\$ 391,510
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Marcellus Community Schools
Fiduciary Funds
Statement of Fiduciary Net Assets
June 30, 2008

	Private Purpose Trust Funds	Agency Funds
Assets		
Cash	\$ 51,226	\$ 28,767
Liabilities		
Due to agency fund activities	-	\$ 28,767
Net Assets		
Reserved for scholarships and loans	\$ 51,226	

See Accompanying Notes to Financial Statements

Marcellus Community Schools
Fiduciary Funds
Private Purpose Trust Funds
Statement of Changes in Fiduciary Net Assets
For the Year Ended June 30, 2008

	<u>Private Purpose Trust Funds</u>
Additions	
Local sources	\$ 501
Interest and investment earnings	<u>1,792</u>
 Total additions	 <u>2,293</u>
 Deductions	
Scholarships	<u>1,500</u>
 Change in net assets	 793
 Net assets - beginning	 <u>50,433</u>
 Net assets - ending	 <u>\$ 51,226</u>

See Accompanying Notes to Financial Statements

Marcellus Community Schools
Notes to Financial Statements
June 30, 2008

Note 1 - Summary of Significant Accounting Policies

The accounting policies of the Marcellus Community Schools (School District) conform to accounting principles generally accepted in the United States of America as applicable to governmental units. The following is a summary of the School District's significant accounting policies:

Reporting Entity

The School District is governed by an elected seven-member Board of Education. The accompanying financial statements have been prepared in accordance with criteria established by the Governmental Accounting Standards Board for determining the various governmental organizations to be included in the reporting entity. These criteria include significant operational financial relationships that determine which of the governmental organizations are a part of the School District's reporting entity, and which organizations are legally separate component units of the School District. The School District has no component units.

District-wide Financial Statements

The School District's basic financial statements include both district-wide (reporting for the district as a whole) and fund financial statements (reporting the School District's major funds). The district-wide financial statements categorize all nonfiduciary activities as either governmental or business type. All of the School District's activities are classified as governmental activities.

The statement of net assets presents governmental activities on a consolidated basis, using the economic resources measurement focus and accrual basis of accounting. This method recognizes all long-term assets and receivables as well as long-term debt and obligations. The School District's net assets are reported in three parts (1) invested in capital assets, net of related debt, (2) restricted

net assets, and (3) unrestricted net assets. The School District first utilizes restricted resources to finance qualifying activities.

The statement of activities reports both the gross and net cost of each of the School District's functions. The functions are also supported by general government revenues (property taxes and certain intergovernmental revenues). The statement of activities reduces gross expenses (including depreciation) by related program revenues, operating and capital grants. Program revenues must be directly associated with the function. Operating grants include operating-specific and discretionary (either operating or capital) grants.

The net costs (by function) are normally covered by general revenue (property taxes, state sources and federal sources, interest income, etc.). The School District does not allocate indirect costs. In creating the district-wide financial statements the School District has eliminated interfund transactions.

The district-wide focus is on the sustainability of the School District as an entity and the change in the School District's net assets resulting from current year activities.

Fund Financial Statements

Separate financial statements are provided for governmental funds and fiduciary funds, even though the latter are excluded from the district-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the School District considers revenues to be available if they are collected within 60 days

Marcellus Community Schools
Notes to Financial Statements
June 30, 2008

of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, unrestricted state aid, intergovernmental grants, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenue of the current fiscal period. All other revenue items are considered to be available only when cash is received by the government.

Fiduciary fund statements also are reported using the economic resources measurement focus and the accrual basis of accounting.

The School District reports the following major governmental funds:

General Fund – The General Fund is used to record the general operations of the School District pertaining to education and those operations not required to be provided for in other funds.

Additionally, the School District reports the following fund types:

Special Revenue Funds – Special Revenue Funds are used to account for the proceeds of specific revenue sources that are restricted to expenditures for specified purposes. The School District's Special Revenue Funds include Food Service and Athletic Funds. Operating deficits generated by these activities are generally transferred from the General Fund.

Debt Service Funds – Debt Service Funds are used to record tax, interest, and other revenue and the payment of interest, principal, and other expenditures on long-term debt.

Fiduciary Funds – Fiduciary Funds are used to account for assets held by the School District in a trustee capacity or as an agent. The Trust Funds are funds entrusted to the School District for

scholarship awards and loans and the principal and interest of the trust may be spent. The Agency Fund is custodial in nature (assets equal liabilities) and does not involve the measurement of results of operations. This fund is used to record the transactions of student groups for school and school-related purposes.

Assets, Liabilities and Equity

Receivables and Payables – Generally, outstanding amounts owed between funds are classified as "due from/to other funds". These amounts are caused by transferring revenues and expenses between funds to get them into the proper reporting fund. These balances are paid back as cash flow permits.

Property taxes and other receivables are shown net of an allowance for uncollectible amounts.

Property taxes collected are based upon the approved tax rate for the year of levy. For the fiscal year ended June 30, 2008, the rates are as follows per \$1,000 of assessed value.

General Fund	
Nonhomestead	18.00000
Debt Service Funds	
Homestead	5.99000
Nonhomestead	5.99000

School property taxes are assessed and collected in accordance with enabling state legislation by cities and townships within the School District's boundaries.

Marcellus Community Schools

Notes to Financial Statements

June 30, 2008

The property tax levy runs from July 1 to June 30. Property taxes become a lien on the first day of the levy year and are due on or before September 14 or February 14. Collections are forwarded to the School District as collected by the assessing municipalities. Real property taxes uncollected as of March 1 are purchased by the Counties of Cass, St. Joe and Van Buren and remitted to the School District by May 15.

Inventories and Prepaid Items – Inventories are valued at cost, on a first-in, first-out basis. Inventories of governmental funds are recorded as expenditures when consumed rather than when purchased. Certain payments to vendors reflect costs applicable to future fiscal years and are recorded as prepaid items in both district-wide and fund financial statements.

Capital Assets – Purchased or constructed capital assets are reported at cost or estimated historical cost. Donated capital assets are recorded at their estimated fair market value at the date of donation. The School District defines capital assets as assets with an initial individual cost in excess of \$5,000. Costs of normal repair and maintenance that do not add to the value or materially extend asset lives are not capitalized. The School District does not have infrastructure assets. Buildings, equipment, and vehicles are depreciated using the straight-line method over the following useful lives:

Buildings and additions	20-50 years
Site improvements	10-20 years
Equipment and furniture	5-10 years
Buses and other vehicles	5-10 years

Early Retirement Incentive – The liability for early retirement incentives reported in the district-wide financial statements consists of earned but unpaid termination benefits. An expenditure for these amounts is reported in governmental funds as it comes due for payment.

Compensated Absences – Sick days are earned by teachers and administrators. Retiring employees who meet certain years of service requirements are paid for accumulated sick days up to a maximum numbers of days and at a rate determined by their contracts. There is no contractual provision for payment of unusual vacation. They may be used for vacation only.

The liability for compensated absences reported in the district-wide financial statements consists of unpaid, accumulated sick leave balances. The liability has been calculated using the vesting method, in which leave amounts for both employees who currently are eligible to receive termination payments. The amount reported is salary-related and includes fringe benefits.

Long-term Obligations – In the district-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the statement of net assets.

Fund Equity – In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

Comparative Data

Comparative data is not included in the School District's financial statements.

Marcellus Community Schools
Notes to Financial Statements
June 30, 2008

Eliminations and Reclassifications

In the process of aggregating data for the statement of net assets and the statement of activities, some amounts reported as interfund activity and balances in the funds were eliminated or reclassified.

Interfund receivables and payables were eliminated to minimize the "grossing up" effect on assets and liabilities within the governmental activities column.

Upcoming Accounting and Reporting Changes

The Government Accounting Standards Board has issued Statement No. 45, *Accounting and Reporting by Employers for Post-employment Benefits other than Pensions*. The new pronouncement provides guidance for school districts in recognizing the cost of retiree health care. The new rules will cause district-wide financial statements to recognize the cost of providing retiree healthcare coverage over the working life of the employee, rather than at the time the health care premiums are paid. The new pronouncement is effective for the year ending June 30, 2010.

The Government Accounting Standards Board has issued Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations*. This statement addresses how to account for pollution remediation activities of the effects of existing pollution; it does not include prevention or control activities or remediation required upon the retirement of an asset. In general, the new rules will cause district-wide financial statements to recognize a liability on the current value of expected costs as estimated using the expected cash flows method. This statement is effective for the year ending June 30, 2009.

The Government Accounting Standards Board has issued Statement No. 51, *Accounting and Financial Reporting for Intangible Assets*. The new standard characterizes an intangible asset as an asset that lacks physical substance, is nonfinancial in nature and has an initial useful life extending beyond a single reporting period. In general, the new

rules will cause district-wide financial statements to include intangible assets as capital assets. This statement is effective for the year ending June 30, 2010.

Note 2 - Stewardship, Compliance, Accountability

Budgetary Information

Annual budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America and state law for the General and Special Revenue Funds. All annual appropriations lapse at fiscal year end, thereby cancel all encumbrances. These appropriations are reestablished at the beginning of the year.

The appropriation level adopted by the Board is the level of control authorized under the Act. The Act requires expenditures to be budgeted on a functional basis. State law requires the School District to have its budget in place by July 1. A district is not considered in violation of the Act if reasonable procedures are in use by the School District to detect violations.

The Superintendent is authorized to transfer budgeted amounts between functions within any fund; however, any revisions that alter the total expenditures of any fund must be approved by the Board of Education.

Budgeted amounts are as originally adopted or as amended by the Board of Education throughout the year. Individual amendments were not material in relation to the original appropriations which were amended.

Appropriations lapse at yearend and, therefore, cancel all encumbrances. These appropriations are reestablished at the beginning of the following year.

Marcellus Community Schools
Notes to Financial Statements
June 30, 2008

Excess of Expenditures over Appropriations

During the year, the School District incurred expenditures in certain budgetary funds which were in excess of the amounts appropriated, as follows:

Function	Final Budget	Amount of Expenditures	Budget Variances
General Fund			
Basic programs	\$ 3,796,423	\$ 3,796,593	\$ 170
Business	183,991	203,876	19,885
Operations and maintenance	740,489	742,135	1,646
Central	54,800	55,387	587
Capital outlay	30,395	30,618	223
Debt - principal	78,880	81,971	3,091
Debt - interest and fiscal charges	10,250	46,560	36,310
Transfers out	183,461	224,196	40,735

Fund Deficits

The School District has an accumulated fund balance deficit in the Food Service Fund in the amount of \$2,386.

Note 3 - Deposits and Investments

The School District's deposits and investments were reported in the basic financial statements in the following categories:

	Governmental Activities	Fiduciary Funds	Total Primary Government
Cash	\$ 1,608,504	\$ 79,993	\$ 1,688,497

The breakdown between deposits and investments for the School District is as follows:

Deposits (checking, savings accounts, money markets, certificates of deposit)	<u>\$ 1,688,497</u>
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Interest rate risk – The District does not have a formal investment policy to manage its exposure to fair value losses arising from changes in interest rates.

Credit risk – State statutes and the School District's investment policy authorize the School District to make deposits in the accounts of federally insured banks, credit unions, and savings and loan associations that have an office in Michigan; the School District is allowed to invest in U.S. Treasury or Agency obligations, U.S. government repurchase agreements, bankers' acceptances, commercial paper rated prime at the time of purchase that matures not more than 270 days after the date of purchase, mutual funds, and investment pools that are composed of authorized investment vehicles.

Concentration of credit risk – The District has no policy that would limit the amount that may be invested with any one issuer.

Custodial credit risk – deposits – In the case of deposits, this is the risk that in the event of a bank failure, the District's deposits may not be returned to it. The District does not have a deposit policy for custodial credit risk. As of year end, \$1,600,700 of the District's bank balance of \$1,800,700 was exposed to custodial credit risk because it was uninsured and uncollateralized.

Marcellus Community Schools
Notes to Financial Statements
June 30, 2008

Note 4 - Capital Assets

A summary of the changes in governmental capital assets is as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental activities				
Capital assets not being depreciated				
Land	\$ 100,000	\$ -	\$ -	\$ 100,000
Total capital assets not being depreciated	<u>100,000</u>	<u>-</u>	<u>-</u>	<u>100,000</u>
Capital assets being depreciated				
Buildings and additions	7,176,928	-	-	7,176,928
Equipment and furniture	2,774,359	-	-	2,774,359
Buses and other vehicles	871,385	-	-	871,385
Total capital assets being depreciated	<u>10,822,672</u>	<u>-</u>	<u>-</u>	<u>10,822,672</u>
Less accumulated depreciation for				
Buildings and additions	3,066,331	110,231	4,934	3,171,628
Equipment and furniture	2,397,492	52,111	15,476	2,434,127
Buses and other vehicles	696,959	40,301	-	737,260
Total accumulated depreciation	<u>6,160,782</u>	<u>202,643</u>	<u>20,410</u>	<u>6,343,015</u>
Net capital assets being depreciated	<u>4,661,890</u>	<u>(202,643)</u>	<u>(20,410)</u>	<u>4,479,657</u>
Net capital assets	<u>\$ 4,761,890</u>	<u>\$ (202,643)</u>	<u>\$ (20,410)</u>	<u>\$ 4,579,657</u>

Depreciation for the fiscal year ended June 30, 2008 amounted to \$202,643. The School District determined that it was impractical to allocate depreciation to the various governmental activities as the assets serve multiple functions.

Note 5 - Interfund Receivable, Payable, Transfers

Interfund transfers were made during the year are as follows:

	Transfers Out		
	General Fund	Debt Funds	Total
Transfers in			
Debt Funds	\$ -	\$ 83,675	\$ 83,675
Athletics Fund	176,037	-	176,037
Lunch Fund	<u>48,159</u>	<u>-</u>	<u>48,159</u>
	<u>\$ 224,196</u>	<u>\$ 83,675</u>	<u>\$ 307,871</u>

Transfers to the Athletics and Lunch funds were made to cover the costs of the School District's programs that were in excess of revenues generated from those activities.

Transfers between the Debt funds were made to close out old funds and cover costs related to the bond refunding.

Note 6 - State Aid Anticipation Note

The School District issues state aid anticipation notes in advance of state aid collections, depositing the proceeds in the General Fund. These notes are necessary because the School District receives state aid from October through the following August for its fiscal year ending June 30th.

Short-term debt activity for the year was as follows:

	Beginning Balance	Proceeds	Repayments	Ending Balance
State aid anticipation note	\$ -	\$ 1,000,000	\$ -	\$ 1,000,000

Marcellus Community Schools
Notes to Financial Statements
June 30, 2008

Note 7 - Long-Term Debt

The School District issues bonds, notes, and other contractual commitments to provide for the acquisition and construction of major capital facilities and the acquisition of certain equipment. General obligation bonds are direct obligations and pledge the full faith and credit of the School District. Other long-term obligations include compensated absences, claims and judgments, termination benefits, and certain risk liabilities.

Long-term obligation activity is summarized as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Amount Due Within One Year
Government obligation bonds	\$ 7,255,000	\$ 2,915,000	\$ 3,430,000	\$ 6,740,000	\$ 525,000
Bond Issuance Costs	\$ (53,641)	\$ (61,215)	\$ (6,705)	(108,151)	-
Deferred amounts	(21,409)	(110,074)	(2,676)	(128,807)	-
Premium on bonds	<u>31,050</u>	<u>166,117</u>	<u>3,881</u>	<u>193,286</u>	-
	7,211,000	2,909,828	3,424,500	6,696,328	525,000
Other bonds	39,301	-	-	39,301	3,704
Installment notes	194,562	-	81,971	112,591	43,916
Compensated absences	126,495	-	1,441	125,054	-
Retirement incentives	<u>210,000</u>	<u>102,240</u>	<u>122,240</u>	<u>190,000</u>	<u>90,000</u>
Total	<u>\$ 7,781,358</u>	<u>\$ 3,012,068</u>	<u>\$ 3,630,152</u>	<u>\$ 7,163,274</u>	<u>\$ 662,620</u>

General obligation bonds payable at yearend consists of the following:

\$5,550,000 serial bond due in annual installments of \$220,000 to \$2,500,000 through May 1, 2019 , interest at 4.25% to 5.0%	\$ 1,400,000
\$2,960,000 serial bond due in annual installments of \$225,000 to \$1,840,000 through May 1, 2015, interest at 2.5% to 4.0%	2,425,000
\$2,915,000 serial bond due in annual installments of \$190,000 to \$2,725,000 through May 1, 2015, interest at 4.0% to 5.25%	<u>2,915,000</u>
Total general obligation bonded debt	<u>\$ 6,740,000</u>

Future principal and interest requirements for bonded debt are as follows:

Year Ending June 30,	Principal	Interest	Total
2009	\$ 525,000	\$ 283,496	\$ 808,496
2010	570,000	263,996	833,996
2011	620,000	242,220	862,220
2012	670,000	217,772	887,772
2013	695,000	191,002	886,002
2014-2018	3,045,000	414,150	3,459,150
2019-2023	<u>615,000</u>	<u>24,600</u>	<u>639,600</u>
Total	<u>\$ 6,740,000</u>	<u>\$ 1,637,236</u>	<u>\$ 8,377,236</u>

The general obligation bonds are payable from the Debt Service Funds. As of year end, the funds had a balance of \$397,080 to pay this debt. Future debt and interest will be payable from future tax levies.

Marcellus Community Schools
Notes to Financial Statements
June 30, 2008

Other bonds consist of the following:

\$66,560 Durant Refunding serial bonds due in annual installments \$ 39,301
through 5/15/2013; interest 4.76% due annually

These bond obligations issued by PA 142 are payable solely from and are secured solely by an assignment by each School District of certain categorical State School Aid payments. The State Legislature has no obligation to make such appropriations. In the event the Legislature fails to appropriate funds, the School District is under no obligation for repayment of the debt obligation issued by PA 142.

Future principal and interest requirements are as follows:

	Principal	Interest	Total
Year Ending June 30,			
2009	\$ 3,704	\$ 970	\$ 4,674
2010	3,880	794	4,674
2011	4,065	609	4,674
2012	23,191	8,214	31,405
2013	<u>4,461</u>	<u>212</u>	<u>4,673</u>
Total	<u>\$ 39,301</u>	<u>\$ 10,799</u>	<u>\$ 50,100</u>

Installment Notes

Installment notes payable at June 30, 2008 consist of the following:

\$14,035 Athletic Field installment note payable due in monthly installments of \$149 through September 9, 2008, interest at 4.97%	\$ 318
\$120,637 Athletic Field installment note payable due in monthly installments of \$1,282 through September 9, 2008, interest at 4.97%	2,704
\$34,818 Athletic Field installment note payable due in monthly installments of \$370 through September 9, 2008, interest at 4.97%	780
\$13,650 Athletic Field installment note payable due in monthly installments of \$145 through September 9, 2008, interest at 4.97%	306
\$45,300 School Bus installment note payable due in semi-annual installments of \$11,325 through August, 2008, interest at 4.99%	10,497
\$150,000 Northrup property installment note payable due in monthly installments of \$1,584 through October 15, 2012, interest at 4.90%	72,911
\$55,323 Telephone System installment note payable due in monthly installments of \$1,175 through August 8, 2010, interest at 10.00%	<u>25,075</u>
Total installment notes payable	<u>\$ 112,591</u>

Marcellus Community Schools
Notes to Financial Statements
June 30, 2008

Future principal and interest requirements for installment notes are as follows:

Year Ending June 30,	Principal	Interest	Total
2009	\$ 41,715	\$ 6,531	\$ 48,246
2010	29,294	4,017	33,311
2011	17,161	2,060	19,221
2012	18,197	1,003	19,200
2013	<u>6,224</u>	<u>88</u>	<u>6,312</u>
Total	<u>\$ 112,591</u>	<u>\$ 13,699</u>	<u>\$ 126,290</u>

Compensated Absences

Accrued compensated absences at year end, consists of \$125,054 of accrued sick time benefits. The entire vested amount is considered long-term as the amount expended each year is expected to be offset by sick time earned for the year.

Retirement Benefits

The School District offered a voluntary severance incentive plan to employees to be paid over a five year period through 2010. The School District has also added a new severance incentive plan to employees to be paid over a three year period through 2010. The balance as of yearend was \$190,000.

Future payments are as follows:

Year Ending June 30,	
2009	\$ 90,000
2010	<u>100,000</u>
Total	<u>\$ 190,000</u>

Interest expenditures for the fiscal year in the General Fund and Debt Service Funds were \$46,560 and \$303,453, respectively.

Defeased Debt

In the current year, the School District has defeased various bonds issued by creating separate irrevocable trust funds. New debt has been issued and the net proceeds of each refunding were placed in separate special escrow accounts and invested in securities of the U.S. Government and its agencies. The investments and fixed earnings from the investments are sufficient to fully service the defeased debt until the debt is called or matures. For financial reporting purposes, the refunded bonds are considered to be defeased. Accordingly, the trust account assets and liability for the defeased bonds are not included in the School District's financial statements.

On November 14, 2007 the School District issued general obligation bonds of \$2,915,000 with interest rates of 4.00% to 5.25% to advance refund a portion of the 2001 general obligation bonds with interest rates of 4.25% and 5.00% and total par value of \$5,550,000. The general obligation bonds begin maturing in May, 2014. The refunding bonds were issued at a premium of \$166,117 and after paying issuance and other costs of \$61,215, the net proceeds were \$3,019,902. The net proceeds from the issuance of the general obligation bonds were used to purchase U.S. government securities and those securities were deposited in an irrevocable trust with an escrow agent to provide debt service payments until the original bonds are due, beginning May 1, 2014. The advance refunding met the requirements of an in-substance debt defeasance and the term bonds were removed from the School District's long-term debt portion of the financial statements.

As a result of the 2008 advance refunding, the School increased its total debt service requirements by \$171,289 but achieved an economic gain of approximately \$129,992.

Marcellus Community Schools
Notes to Financial Statements
June 30, 2008

The final payment date is May 2019 for the 2008 refunding bonds. As of year end, the amount of defeased debt outstanding but removed from the School District's financial statements is as follows:

2001 Issue refunded	<u>\$ 5,550,000</u>
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Note 8 - Risk Management

The School District is exposed to various risks of loss related to property loss, torts, errors and omissions, employee injuries (workers' compensation) and certain medical benefits provided to employees. The School District has purchased commercial insurance for general liability, property and casualty and health and vision claims. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in the past three fiscal years.

The School District is subject to the Michigan Employment Security Act and has elected to pay unemployment claims on a direct self-insured basis. Under this method, the School District must reimburse the Employment Commission for all benefits charged against the School District. The School District had no unemployment compensation expense for the year. No provision has been made for possible future claims.

Note 9 - Defined Benefit Pension Plan

Plan Description

The School District has a defined benefit pension plan covering substantially all employees. The plan is operated by the State of Michigan's Public School Employees Retirement System (MPERS), which is a cost-sharing public employee retirement system (PERS).

The pension plan provides retirement, survivor and disability benefits to plan members and their beneficiaries. MPERS operates within the Michigan Department of Management and Budget, Office of Retirement Systems who has the authority to establish and amend

benefit provisions. The Michigan Department of Management and Budget issues a publicly available financial report that includes financial statements and required supplementary information for MPERS. The report provides information for the plan as a whole and information helpful for understanding the scale of the information presented relative to the School. That report may be obtained by writing Office of Retirement Services, P.O. Box 30171, Lansing, Michigan 48909-7671 or calling 800-381-5111.

Funding Policy

The School is required by State statute to contribute to MPERS an actuarially determined percentage of payroll for all participating employees. Additionally, employees participating in the Member Investment Plan contributed 3% to 4.3% of their covered wages through payroll deduction. In addition to retirement benefits, a portion of the total MPERS contribution is allocated to cover health, dental and vision benefits. The following table discloses pertinent information relative to MPERS funding for the three-year period beginning July 1, 2005 through June 30, 2008.

	2008	2007	2006
Funding percentage range	17.74-16.72	16.34-17.74	14.87-16.34%
Total payroll	4,294,554	4,744,158	4,969,941
Total covered payroll	4,263,672	4,666,856	4,885,249
School contributions	723,890	811,764	704,246
Employee MIP contributions	140,152	146,869	145,786
Portion of school contribution covering health, dental and vision benefits	39%	37%	40%

Trend Information

Ten-year historical trend information is presented in the September 30, 2007, PERS Comprehensive Annual Financial Report. This information is useful in assessing the pension plan's accumulation of sufficient assets to pay pension benefits as they become due. The

Marcellus Community Schools
Notes to Financial Statements
June 30, 2008

total benefit obligations and net assets available for benefits as of September 30, 2006, the latest date for which information is available, approximates \$49.1 billion and \$43.0 billion, respectively. The School's share of the total current actuarially determined employer contribution requirement under MPSERS was less than 1% for the year ended September 30, 2007.

Post Employment Benefits

In addition to the pension benefits described above, the School District provides post-retirement health care, dental, and vision benefits for retirees and beneficiaries through Michigan Public School Employees Retirement System (MPSERS).

Expenditures for these benefits are recognized on a cash disbursement basis. During the year ended September 30, 2007, statewide expenditures of \$ 654 million were recognized for post-retirement health care, dental and vision. This represented approximately 18% of the total expenditures of the Michigan Public School Employees Retirement System.

Note 10 - Contingent Liabilities

Amounts received or receivable from grantor agencies are subjected to audit and adjustment by grantor agencies, principally the federal government. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of costs which may be disallowed by the grantor cannot be determined at this time although the School District expects such amounts, if any, to be immaterial.

Note 11 - Prior Period Adjustments

The School District has recorded an adjustment to the General Fund prior year net assets of \$26,602. The adjustment was made to record the property tax chargebacks related to the year ending June 30, 2004. The Food Service Fund balances at July 1, 2007 also has been

adjusted to correct errors made in the prior year. Accounts receivable was understated in the Food Service Fund. Had the receivable been properly recorded in the prior year, revenues for the year ended June 30, 2007 would have increased by \$1,160 in the Food Service Fund. Since the financial statements are not comparative, there will be no restatement reflected for the prior year balance change.

Note 12 - Subsequent Events

On August 16, 2008, the School District paid off its \$1,000,000 short-term state aid anticipation notes through the Michigan Municipal Bond Authority. The interest rate on this note was 3.945%.

On August 20, 2008 the School District borrowed \$1,000,000 in short-term state aid anticipation notes through the Michigan Municipal Bond Authority. The interest rate on this note was 1.70%.

Marcellus Community Schools
Required Supplemental Information
Budgetary Comparison Schedule - General Fund
For the Year Ended June 30, 2008

	Budgeted Amounts			Over (Under) Budget
	Original	Final	Actual	
Revenues				
Local sources	\$ 647,000	\$ 848,272	\$ 825,818	\$ (22,454)
State sources	6,863,055	6,578,418	6,680,580	102,162
Federal sources	207,970	284,033	214,701	(69,332)
Total revenues	7,718,025	7,710,723	7,721,099	10,376
Expenditures				
Instruction				
Basic programs	3,927,379	3,796,423	3,796,593	170
Added needs	398,865	617,103	580,796	(36,307)
Adult and continuing education	39,471	-	-	-
Supporting services				
Pupil	382,676	557,488	556,985	(503)
Instructional staff	122,761	43,796	43,211	(585)
General administration	427,981	429,834	411,717	(18,117)
School administration	592,749	596,508	584,489	(12,019)
Business	234,502	183,991	203,876	19,885
Operations and maintenance	747,517	740,489	742,135	1,646
Pupil transportation services	383,585	417,907	404,486	(13,421)
Central	73,387	54,800	55,387	587
Community services	-	20,500	20,489	(11)
Capital outlay	111,578	30,395	30,618	223
Debt service				
Principal	21,344	78,880	81,971	3,091
Interest and fiscal charges	22,012	10,250	46,560	36,310
Total expenditures	7,485,807	7,578,364	7,559,313	(19,051)
Excess (deficiency) of revenues over expenditures	232,218	132,359	161,786	29,427

Marcellus Community Schools
Required Supplemental Information
Budgetary Comparison Schedule - General Fund
For the Year Ended June 30, 2008

	Budgeted Amounts		Actual	Over (Under) Budget
	Original	Final		
Other Financing Sources				
Insurance recoveries	\$ -	\$ 3,213	\$ 3,213	\$ -
Transfers out	<u>(182,021)</u>	<u>(183,461)</u>	<u>(224,196)</u>	<u>40,735</u>
Total other financing uses	<u>(182,021)</u>	<u>(180,248)</u>	<u>(220,983)</u>	<u>40,735</u>
Net change in fund balance	<u>50,197</u>	<u>(47,889)</u>	<u>(59,197)</u>	<u>(11,308)</u>
Fund balance - beginning	678,540	678,540	678,540	-
Prior period adjustment	<u>-</u>	<u>-</u>	<u>(26,602)</u>	<u>(26,602)</u>
Fund balances - beginning, as restated	<u>678,540</u>	<u>678,540</u>	<u>651,938</u>	<u>(26,602)</u>
Fund balance - ending	<u>\$ 728,737</u>	<u>\$ 630,651</u>	<u>\$ 592,741</u>	<u>\$ (37,910)</u>

Marcellus Community Schools
Other Supplemental Information
Nonmajor Governmental Funds
Combining Balance Sheet
June 30, 2008

	<u>Special Revenue Funds</u>		<u>Debt Service Funds</u>			Total Nonmajor Governmental Funds
	<u>Food Service</u>	<u>Athletics</u>	<u>2001 Debt</u>	<u>2005 Debt</u>	<u>2007 Debt</u>	
Assets						
Cash	\$ 383	\$ 265	\$ 237,470	\$ 93,901	\$ 65,709	\$ 397,728
Inventory	<u>2,048</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,048</u>
Total assets	<u>\$ 2,431</u>	<u>\$ 265</u>	<u>\$ 237,470</u>	<u>\$ 93,901</u>	<u>\$ 65,709</u>	<u>\$ 399,776</u>
Liabilities and Fund Balance						
Liabilities						
Accounts payable	<u>\$ 4,817</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 4,817</u>
Fund Balance						
Reserved for debt service	-	-	237,470	93,901	65,709	397,080
Other undesignated	<u>(2,386)</u>	<u>265</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(2,121)</u>
Total fund balance	<u>(2,386)</u>	<u>265</u>	<u>237,470</u>	<u>93,901</u>	<u>65,709</u>	<u>394,959</u>
Total liabilities and fund balance	<u>\$ 2,431</u>	<u>\$ 265</u>	<u>\$ 237,470</u>	<u>\$ 93,901</u>	<u>\$ 65,709</u>	<u>\$ 399,776</u>

Marcellus Community Schools
Other Supplemental Information
Nonmajor Governmental Funds
Combining Statement of Revenues, Expenditures and Changes in Fund Balances
For the Year Ended June 30, 2008

	Special Revenue Funds		Debt Service Funds					Total Nonmajor Governmental Funds
	Food Service	Athletics	1972 Debt	1991 Debt	2001 Debt	2005 Debt	2007 Debt	
Revenues								
Local sources	\$ 128,327	\$ 44,235	\$ -	\$ -	\$ 355,490	\$ 364,568	\$ 136,605	\$ 1,029,225
State sources	23,330	-	-	-	-	-	-	23,330
Federal sources	199,221	-	-	-	-	-	-	199,221
 Total revenues	 350,878	 44,235	 -	 -	 355,490	 364,568	 136,605	 1,251,776
Expenditures								
Current								
Education								
Food services	401,573	-	-	-	-	-	-	401,573
Athletic activities	-	219,646	-	-	-	-	-	219,646
Debt service								
Principal	-	-	-	-	235,000	250,000	-	485,000
Interest and other expenditures	-	-	-	-	147,615	94,557	61,280	303,452
Bond issuance costs	-	-	-	-	-	-	61,216	61,216
Payment to bond refunding escrow agent	-	-	-	-	-	-	45,000	45,000
 Total expenditures	 401,573	 219,646	 -	 -	 382,615	 344,557	 167,496	 1,515,887
 Excess (deficiency) of revenues over expenditures	 (50,695)	 (175,411)	 -	 -	 (27,125)	 20,011	 (30,891)	 (264,111)

Marcellus Community Schools
Other Supplemental Information
Nonmajor Governmental Funds
Combining Statement of Revenues, Expenditures and Changes in Fund Balances
For the Year Ended June 30, 2008

	Special Revenue Funds		Debt Service Funds					Total Nonmajor Governmental Funds
	Food Service	Athletics	1972 Debt	1991 Debt	2001 Debt	2005 Debt	2007 Debt	
Other Financing Sources (Uses)								
Proceeds from refinancing debt	-	-	-	-	-	-	2,915,000	2,915,000
Payment to bond refunding escrow agent	-	-	-	-	-	-	(3,010,074)	(3,010,074)
Premium on issuance of bonds	-	-	-	-	-	-	166,117	166,117
Transfers in	48,159	176,037	-	-	38,675	-	45,000	307,871
Transfers out	-	-	(19,187)	(45)	(45,000)	-	(19,443)	(83,675)
Total other financing sources (Uses)	48,159	176,037	(19,187)	(45)	(6,325)	-	96,600	295,239
Net change in fund balance	(2,536)	626	(19,187)	(45)	(33,450)	20,011	65,709	31,128
Fund balance - beginning	(1,010)	(361)	19,187	45	270,920	73,890	-	362,671
Prior period adjustment	1,160	-	-	-	-	-	-	1,160
Fund balance - beginning, as restated	150	(361)	19,187	45	270,920	73,890	-	363,831
Fund balance - ending	<u>\$ (2,386)</u>	<u>\$ 265</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 237,470</u>	<u>\$ 93,901</u>	<u>\$ 65,709</u>	<u>\$ 394,959</u>

Marcellus Community Schools
Other Supplemental Information
General Fund
Comparative Balance Sheet
June 30, 2008

	<u>2008</u>	<u>2007</u>
Assets		
Cash	\$ 1,210,776	\$ 188,608
Due from other funds	-	257,671
Due from other governmental units	1,249,437	1,201,587
Inventory	39,535	11,476
Prepaid items	<u>1,859</u>	<u>156,270</u>
 Total assets	 <u>\$ 2,501,607</u>	 <u>\$ 1,815,612</u>
Liabilities and Fund Balance		
Liabilities		
Accounts payable	\$ 35,127	\$ 22,667
State aid anticipation note payable	1,000,000	-
Due to other funds	-	235,386
Due to other governmental units	102,001	94,247
Payroll deductions and withholdings	34,852	38,080
Accrued expenditures	36,800	-
Accrued salaries payable	<u>700,086</u>	<u>746,692</u>
 Total liabilities	 <u>1,908,866</u>	 <u>1,137,072</u>
Fund Balance		
Reserved for inventory	39,535	11,476
Reserved for prepaid items	1,859	156,270
Other undesignated	<u>551,347</u>	<u>510,794</u>
 Total fund balance	 <u>592,741</u>	 <u>678,540</u>
 Total liabilities and fund balance	 <u>\$ 2,501,607</u>	 <u>\$ 1,815,612</u>

Marcellus Community Schools
Other Supplemental Information
General Fund
Schedule of Revenues Compared to Budget
For the Year Ended June 30, 2008

	Original Budget	Final Budget	Actual	Over (Under) Final Budget
Revenue from local sources				
Property tax levy	\$ 600,000	\$ 764,810	\$ 759,457	\$ (5,353)
Tuition	-	134	134	-
Transportation fees	-	1,910	2,946	1,036
Earnings on investments	20,000	10,000	9,043	(957)
Student activities	-	3,330	3,331	1
Community service activities	-	1,207	1,580	373
Other local revenues	27,000	66,881	49,327	(17,554)
Total revenues from local sources	647,000	848,272	825,818	(22,454)
Revenues from state sources				
Grants - unrestricted	6,485,000	6,109,841	6,134,502	24,661
Grants - restricted	378,055	468,577	546,078	77,501
Total revenues from state sources	6,863,055	6,578,418	6,680,580	102,162
Revenues from federal sources				
Grants	207,970	284,033	214,701	(69,332)
Total revenues from federal sources	207,970	284,033	214,701	(69,332)
Other financing sources				
Insurance recoveries	-	3,213	3,213	-
Total other financing sources	-	3,213	3,213	-
Total revenue and other financing sources	\$ 7,718,025	\$ 7,713,936	\$ 7,724,312	\$ 10,376

Marcellus Community Schools
Other Supplemental Information
General Fund
Schedule of Expenditures Compared to Budget
For the Year Ended June 30, 2008

	Original Budget	Final Budget	Actual	Over (Under) Final Budget
Basic program - elementary				
Salaries	\$ 852,215	\$ 731,136	\$ 724,695	\$ (6,441)
Employee benefits	394,585	355,783	360,787	5,004
Supplies and materials	52,000	31,920	31,920	-
Other	3,850	3,059	3,009	(50)
Total elementary	1,302,650	1,121,898	1,120,411	(1,487)
Basic program - middle school				
Salaries	573,008	575,593	575,244	(349)
Employee benefits	301,134	287,328	297,643	10,315
Supplies and materials	23,200	19,502	19,572	70
Other	7,300	3,822	3,997	175
Total middle school	904,642	886,245	896,456	10,211
Basic program - high school				
Salaries	995,918	1,026,701	1,005,680	(21,021)
Employee benefits	472,572	547,198	558,063	10,865
Supplies and materials	38,430	47,533	45,285	(2,248)
Other	94,610	64,880	66,651	1,771
Total high school	1,601,530	1,686,312	1,675,679	(10,633)

Marcellus Community Schools
Other Supplemental Information
General Fund
Schedule of Expenditures Compared to Budget
For the Year Ended June 30, 2008

	Original Budget	Final Budget	Actual	Over (Under) Final Budget
Basic program - pre-school				
Salaries	\$ 76,500	\$ 61,963	\$ 61,854	\$ (109)
Employee benefits	39,005	35,565	37,811	2,246
Purchased services	-	283	282	(1)
Supplies and materials	1,500	1,995	1,995	-
Other	1,552	2,162	2,105	(57)
Total pre-school	118,557	101,968	104,047	2,079
Added needs - special education				
Salaries	166,197	159,481	182,525	23,044
Employee benefits	76,067	68,871	70,653	1,782
Purchased services	-	23,214	-	(23,214)
Supplies and materials	4,014	2,253	2,253	-
Other	500	235	235	-
Total special education	246,778	254,054	255,666	1,612
Added needs - compensatory education				
Salaries	99,133	190,780	185,180	(5,600)
Employee benefits	47,954	106,627	103,183	(3,444)
Supplies and materials	-	892	892	-
Total compensatory education	147,087	298,299	289,255	(9,044)
Added needs - career and technical education				
Supplies and materials	5,000	-	-	-
Other	-	64,750	35,875	(28,875)
Total career and technical education	5,000	64,750	35,875	(28,875)

Marcellus Community Schools
Other Supplemental Information
General Fund
Schedule of Expenditures Compared to Budget
For the Year Ended June 30, 2008

	Original Budget	Final Budget	Actual	Over (Under) Final Budget
Pupil - guidance services				
Salaries	\$ 94,117	\$ 192,401	\$ 196,173	\$ 3,772
Employee benefits	51,622	97,831	93,850	(3,981)
Supplies and materials	9,700	6,345	6,335	(10)
Other	4,594	2,924	1,128	(1,796)
Total guidance services	160,033	299,501	297,486	(2,015)
Pupil - speech services				
Salaries	53,013	53,860	54,014	154
Employee benefits	27,262	26,518	28,032	1,514
Supplies and materials	300	-	-	-
Other	525	263	262	(1)
Total speech services	81,100	80,641	82,308	1,667
Pupil - social work services				
Salaries	-	21,264	21,264	-
Pupil - other support services				
Salaries	96,357	95,110	93,086	(2,024)
Employee benefits	45,186	60,972	62,841	1,869
Total other pupil support services	141,543	156,082	155,927	(155)

Marcellus Community Schools
Other Supplemental Information
General Fund
Schedule of Expenditures Compared to Budget
For the Year Ended June 30, 2008

	Original Budget	Final Budget	Actual	Over (Under) Final Budget
Instructional staff - improvement of education				
Salaries	\$ 2,545	\$ 1,000	\$ -	\$ (1,000)
Other	11,510	1,318	1,318	-
Total improvement of education	14,055	2,318	1,318	(1,000)
Instructional staff - educational media services				
Salaries	60,167	14,140	14,173	33
Employee benefits	23,839	12,967	13,861	894
Supplies and materials	18,800	11,721	11,304	(417)
Other	5,900	1,770	1,675	(95)
Total educational media services	108,706	40,598	41,013	415
Instructional staff - technology assisted instruction				
Other	-	880	880	-
General administration - board of education				
Supplies and materials	19,500	510	504	(6)
Other	74,300	75,773	74,920	(853)
Total board of education	93,800	76,283	75,424	(859)

Marcellus Community Schools
Other Supplemental Information
General Fund
Schedule of Expenditures Compared to Budget
For the Year Ended June 30, 2008

	Original Budget	Final Budget	Actual	Over (Under) Final Budget
General administration - executive administration				
Salaries	\$ 151,650	\$ 202,540	\$ 200,423	\$ (2,117)
Employee benefits	71,131	95,148	82,799	(12,349)
Supplies and materials	4,000	2,179	1,341	(838)
Other	107,400	53,684	51,730	(1,954)
Total executive administration	334,181	353,551	336,293	(17,258)
School administration - office of the principal				
Salaries	288,016	271,777	269,184	(2,593)
Employee benefits	88,723	116,314	111,291	(5,023)
Supplies and materials	10,725	9,611	7,768	(1,843)
Other	205,285	198,306	195,746	(2,560)
Total office of the principal	592,749	596,008	583,989	(12,019)
School administration - other				
Other	-	500	500	-
Business - fiscal services				
Salaries	35,997	-	-	-
Employee benefits	180,701	156,490	173,278	16,788
Supplies and materials	8,000	-	-	-
Total fiscal services	224,698	156,490	173,278	16,788

Marcellus Community Schools
Other Supplemental Information
General Fund
Schedule of Expenditures Compared to Budget
For the Year Ended June 30, 2008

	Original Budget	Final Budget	Actual	Over (Under) Final Budget
Business - other				
Other	\$ 9,804	\$ 27,501	\$ 30,598	\$ 3,097
Operations and maintenance - operating building services				
Salaries	263,823	277,120	275,602	(1,518)
Employee benefits	102,979	104,939	99,489	(5,450)
Supplies and materials	65,000	67,625	71,696	4,071
Other	315,715	290,805	295,348	4,543
Total operating building services	747,517	740,489	742,135	1,646
Pupil transportation services				
Salaries	192,071	207,044	208,324	1,280
Employee benefits	77,514	94,790	102,035	7,245
Supplies and materials	39,500	41,358	17,688	(23,670)
Other	74,500	74,715	76,439	1,724
Total transportation services	383,585	417,907	404,486	(13,421)
Central - planning, research development and evaluation				
Employee benefits	-	213	213	-
Other	-	1,703	2,731	1,028
Total planning, research development and evaluation	-	1,916	2,944	1,028

Marcellus Community Schools
Other Supplemental Information
General Fund
Schedule of Expenditures Compared to Budget
For the Year Ended June 30, 2008

	Original Budget	Final Budget	Actual	Over (Under) Final Budget
Central - staff/personnel services				
Other	\$ -	\$ 1,000	\$ 722	\$ (278)
Central - support services technology				
Salaries	35,025	31,200	30,673	(527)
Employee benefits	18,362	20,324	20,676	352
Other	20,000	360	372	12
Total support services technology	73,387	51,884	51,721	(163)
Community services - community activities				
Salaries	-	20,000	19,996	(4)
Supplies and materials	-	500	493	(7)
Total community activities	-	20,500	20,489	(11)
Capital outlay				
Basic program - elementary	1,000	-	-	-
Basic program - middle school	16,000	7,694	7,942	248
Basic program - high school	14,000	11,211	11,206	(5)
Instructional staff - educational media services	2,200	250	246	(4)
General administration - executive administration	2,500	4,840	4,836	(4)
School administration - office of the principal	14,868	5,940	5,933	(7)
Operations and maintenance - operating building services	60,000	460	455	(5)
Total capital outlay	111,578	30,395	30,618	223

Marcellus Community Schools
Other Supplemental Information
General Fund
Schedule of Expenditures Compared to Budget
For the Year Ended June 30, 2008

	Original Budget	Final Budget	Actual	Over (Under) Final Budget
Debt service				
Principal	\$ 21,344	\$ 78,880	\$ 81,971	\$ 3,091
Interest and other expenditures	<u>22,012</u>	<u>10,250</u>	<u>46,560</u>	<u>36,310</u>
Total debt service	<u>43,356</u>	<u>89,130</u>	<u>128,531</u>	<u>39,401</u>
Other financing uses				
Transfers out	<u>182,021</u>	<u>183,461</u>	<u>224,196</u>	<u>40,735</u>
Total expenditures and financing uses	<u>\$ 7,667,828</u>	<u>\$ 7,761,825</u>	<u>\$ 7,783,509</u>	<u>\$ 21,684</u>

Marcellus Community Schools
Other Supplemental Information
Fiduciary Funds
Statement of Changes in Amounts Due to Student Groups
For the Year Ended June 30, 2008

	Due to (from) Student Groups July 1, 2007	Cash Receipts	Cash Disbursements	Due to (from) Student Groups June 30, 2008
Administration	\$ (23,918)	\$ 5,130	\$ -	\$ (18,788)
Band	1,497	17,043	15,054	3,486
Band trip	701	3,114	1,927	1,888
Boys' basketball	1,808	3,680	3,561	1,927
Cheerleading	357	-	2	355
Class 2007	602	-	19	583
Class 2008	535	3,198	3,278	455
Class 2009	100	10,843	10,916	27
Class 2010	849	994	752	1,091
Class 2011	100	402	162	340
Class 2012	-	100	-	100
ES library	2,138	6,069	5,999	2,208
ES principal	2,071	13,381	11,881	3,571
ES school success	480	303	472	311
Girls' basketball	-	784	784	-
Girls on the run	1,200	-	982	218
Grad bash	(106)	-	-	(106)
Greenhouse	621	2,113	2	2,732
H.S. football	(60)	2,450	2,123	267
H.S. principal	1,327	2,664	2,985	1,006
H.S. soccer	1,166	14,912	15,966	112
H.S. spanish	13	291	240	64
H.S. student council	4,591	1,112	2,043	3,660

Marcellus Community Schools
Other Supplemental Information
Fiduciary Funds
Statement of Changes in Amounts Due to Student Groups
For the Year Ended June 30, 2008

	Due to (from) Student Groups July 1, 2007	Cash Receipts	Cash Disbursements	Due to (from) Student Groups June 30, 2008
H.S. yearbook	\$ 1,750	\$ 7,910	\$ 4,979	\$ 4,681
H.S. Golf Team	-	290	-	290
Industrial arts	-	831	-	831
M.S. camp	342	15	132	225
M.S. fundraiser	4,169	3,933	6,412	1,690
M.S. leadership	1,018	3,399	2,745	1,672
M.S. principal	2,498	10,874	12,248	1,124
M.S. student council	2,631	3,647	4,182	2,096
M.S. sunshine	85	430	500	15
National honor society	3,770	4,033	2,867	4,936
Relay for life	104	1,670	1,773	1
Ski club	(19)	2,776	2,757	-
Stars	1,435	310	129	1,616
Volinia maple	6,730	11,552	15,303	2,979
Volinia prom	207	590	764	33
Volinia student council	516	25	441	100
Volinia tech	31	-	1	30
Wrestling	29	-	29	-
Volleyball	134	2,020	1,213	941
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total	<u>\$ 21,502</u>	<u>\$ 142,888</u>	<u>\$ 135,623</u>	<u>\$ 28,767</u>

Marcellus Community Schools
Other Supplemental Information
Schedule of Outstanding Bonded Indebtedness
June 30, 2008

<u>Year Ending June 30,</u>	<u>2001 Building & Site Principal</u>	<u>Durant Principal</u>	<u>2005 Refunding Principal</u>	<u>2007 Refunding Principal</u>	<u>Total</u>
2009	\$ 250,000	\$ 3,704	\$ 275,000	\$ -	\$ 528,704
2010	260,000	3,880	310,000	-	573,880
2011	275,000	4,065	345,000	-	624,065
2012	295,000	23,191	375,000	-	693,191
2013	320,000	4,461	375,000	-	699,461
2014-2018	-	-	745,000	2,300,000	3,045,000
2019-2023	-	-	-	615,000	615,000
Total	<u>\$ 1,400,000</u>	<u>\$ 39,301</u>	<u>\$ 2,425,000</u>	<u>\$ 2,915,000</u>	<u>\$ 6,779,301</u>
Principal payments due the first day of	May	May	May	May	
Interest payments due the first day of	May and November	May and November	May and November	May and November	
Interest rate	4.25% -5.0%	4.76%	2.5% - 4.0%	4.0% - 5.25%	
Original issue	<u>\$ 5,550,000</u>	<u>\$ 66,560</u>	<u>\$ 2,960,000</u>	<u>\$ 2,915,000</u>	

**Report on Internal Control over Financial Reporting
and on Compliance and Other Matters
Based on an Audit of Financial Statements
Performed in Accordance with *Government Auditing Standards***

To the Board of Education
Marcellus Community Schools
Marcellus, Michigan

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Marcellus Community Schools, as of and for the year ended June 30, 2008, and have issued our report thereon dated November 10, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

In planning and performing our audit, we considered Marcellus Community Schools' internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Marcellus Community Schools' internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Marcellus Community Schools' internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be significant deficiencies or material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Marcellus Community Schools' financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of Marcellus Community Schools in a separate letter dated November 10, 2008.

This report is intended for the information and use of the Board of Education, management, federal awarding agencies and pass-through entities and is not intended and should not be used by anyone other than these specified parties.

Yeo & Yeo, P.C.

Kalamazoo, Michigan
November 10, 2008

**Marcellus Community Schools
Summary Schedule of Prior Audit Findings
For the Year Ended June 30, 2007**

Federal Awards Finding and Questioned Costs

Finding No. 2007-3: Title I, Part A - Time and Effort Reporting

Specific requirement: Office of Management and Budget (OMB) Circular A-87 requires when employees are expected to work solely on a single federal award or cost objective, charges for their salaries will be supported by semi-annual certifications signed by the employee or a supervisor with first-hand knowledge of the work performed by the employee indicating the employees worked solely on that program for the semi-annual period covered by the certification.

Condition: The District did not maintain semi-annual certifications for employees working solely on a single federal award or cost objective.

Questioned Costs: \$0

Context: The District provided a Title I, Part A staff listing, but did not have 100% funded staff sign semi-annual certifications.

Cause/Effect: This could prevent the District from accurately posting payroll expenses to the proper federal program expense accounts.

Recommendation: Prepare semi-annual certifications to be signed by 100% funded staff or a supervisor with first-hand knowledge of the work performed by the 100% funded staff.

Corrective Action Plan: The District will prepare semi-annual certifications and obtain signatures from 100% funded staff or a supervisor with first-hand knowledge of the work performed by the 100% funded staff for the fiscal year ending June 30, 2008 and years thereafter.

Current Status: Per our review, the District is now retaining certificates, which are being signed twice a year by all 100% Title I employees, and planners for all less than 100% Title I employees.

**Marcellus Community Schools
Summary Schedule of Prior Audit Findings
For the Year Ended June 30, 2007**

Federal Awards Finding and Questioned Costs (continued)

Finding No. 2007-4: Title I – Allowable Costs/Cost Principles

Specific requirement: Office of Management and Budget (OMB) Circular A-87 requires that funds are used in compliance with all applicable statutory and regulatory provisions, including ensuring that costs are allocable to a particular cost objective and that funds received are spent only for reasonable and necessary costs of the program.

Condition: The District did not properly allocate the salaries and related benefits for employees who worked in part on the Title I, Part A program.

Questioned Costs: \$0

Context: One employee who worked in part on the Title I, Part A program was charged 100% to the program, and eight employees who worked in part on the Title I, Part A program were not charged at all to the program.

Cause/Effect: Incorrect amounts for salaries and related benefits were charged to the Title I, Part A program, however, in total the amount charged to the program was correct.

Recommendation: Salaries and related benefits for employees who work in part on a federal program should be allocated to the program based on the percentage of time spent by the employee working specifically on the applicable program.

Corrective Action Plan: The District will allocate salaries and related benefits for the employees working in part on the Title I, Part A program based on their percentage of time spent working specifically on that program for the fiscal year ending June 30, 2008 and years thereafter.

Current Status: Per our review we noted the general ledger accounts were modified and now the last four digits relate to the specific grant. This new monitoring system allows the District to classify and track expenditures by grant type. For Title I expenditures the general ledger account ends with 1100.

**Marcellus Community Schools
Summary Schedule of Prior Audit Findings
For the Year Ended June 30, 2007**

Federal Awards Finding and Questioned Costs (continued)

Finding No. 2007-5: Title I – Period of Availability of Federal Funds

Specific requirement: Office of Management and Budget (OMB) Circular A-133 Title I Compliance Supplement indicates there is a 15 month period of initial availability for funds, but this does not allow for subsequent school year expenditures to be charged against the current year grant.

Condition: The District reported expenditures in excess of those actually incurred on the final expenditure report for the Title I, Part D Grant ID # 061700/0506.

Questioned Costs: \$94,247

Context: The District submitted the final expenditure report for the Title I, Part D Grant ID # 061700/0506 reporting total expenditures of \$134,234 when actual expenditures incurred against this grant were \$39,987.

Cause/Effect: Due to the submission of the final expenditure report, the State of Michigan sent payment to the District for the additional expenditures reported but not yet reimbursed for the Title I, Part D Grant ID # 061700/0506.

Recommendation: When submitting final expenditure reports for federal programs, the District should use the general ledger detail for the applicable program and timeframe to be reported on and include only those expenditures allocated to the applicable grant year.

Corrective Action Plan: The District has recorded the amount of questioned costs as due to the State of Michigan as of June 30, 2007. The District will ensure final expenditure reports include only the expenditures incurred for the grant year being reported on for the fiscal year ending June 30, 2008 and years thereafter.

Current Status: Per our review we noted the District is still reporting expenditures over costs incurred as a liability. The State has not notified the District requesting the funds be remitted back to the State or withheld the amount from the District's payment from the State. The District is still waiting to hear from the State with the intent of repaying the funds when requested.

**Marcellus Community Schools
Summary Schedule of Prior Audit Findings
For the Year Ended June 30, 2007**

Federal Awards Findings and Questioned Costs (continued)

Finding No. 2007-6: Title I – Cash Management

Specific requirement: Office of Management and Budget (OMB) Circular A-133 Title I Compliance Supplement indicates cash should not be requested in excess of three days cash needs.

Condition: The District requested funds subsequent to year end which were in excess of expenditures incurred for the Title I, Part D Grant ID # 071700/0607.

Questioned Costs: \$0

Context: The District submitted a request for funds on July 9, 2007 for the Title I, Part D Grant ID # 071700/0607 reporting total expenditures of \$152,597 when actual expenditures incurred to date against this grant were \$144,844. There were no estimated cash needs for the next three calendar days related to this grant.

Cause/Effect: Due to the submission of this request for funds, the District received \$7,753 in excess of expenditures incurred for the Title I, Part D Grant ID # 071700/0607. As this amount was received subsequent to year end, there are no questioned costs as of June 30, 2007.

Recommendation: Future requests for funds should not exceed the amount of estimated cash needs for the next three calendar days.

Corrective Action Plan: The District reported the correct amount of expenditures incurred for the Title I, Part D Grant ID # 071700/0607 on the Schedule of Expenditures of Federal Awards and will also report the correct amount of expenditures on the final expenditure report. The District will ensure that requests for federal funds are not in excess of three days cash needs for the fiscal year ending June 30, 2008 and years thereafter.

Current Status: Per our review, for fiscal year 2008, the District had a much better handle on expenditures incurred and is no longer requesting funds before the costs are incurred. Therefore during 2008, no funds were requested which exceeded the cash needs for the next three calendar days. All 2008 fund requests were made to cover costs already incurred.



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November 10, 2008

Management and the Board of Education
Marcellus Community Schools
Marcellus, MI 49067

We have completed our audit of the financial statements of Marcellus Community Schools as of and for the year ended June 30, 2008 and have issued our report dated November 10, 2008. We are required to communicate certain matters to you in accordance with auditing standards generally accepted in the United States of America that are related to internal control and the audit. The appendices to this letter set forth those communications as follows:

I Auditors' Communication of Significant Matters with Those Charged with Governance

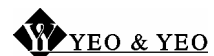
II Management Comments

We discussed these matters with various personnel in the organization during the audit and have already met with management on October 27, 2008. We would also be pleased to meet with you to discuss these matters at your convenience.

These communications are intended solely for the information and use of management, the Board of Directors, others within the organization, and are not intended to be and should not be used by anyone other than those specified parties.

Yeo & Yeo, P.C.

Kalamazoo, Michigan



Appendix I

Communication to Those Charged with Governance

Responsibilities under generally accepted auditing standards

As stated in our engagement letter dated, we are responsible for conducting our audit in accordance with auditing standards generally accepted in the United States of America (US GAAS) established by the Auditing Standards Board of the American Institute of Certified Public Accountants. Our responsibility, as prescribed by US GAAS, is to express an opinion about whether the financial statements prepared by management, with your oversight, are fairly presented, in all material respects. Our audit does not relieve you of your responsibilities.

Planned Scope and Timing of the Audit

We performed the audit as outlined in our discussion with you related to planning matters on May 21, 2008.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. We will advise management about their appropriateness and application. The significant accounting policies are described in (Note 1) of the financial statements. We noted no transactions entered into by the organization during the year where there is lack of authoritative guidance or consensus. There are no significant transactions that were recognized in a period other than which they occurred.

Accounting estimates are based on management's knowledge and experience about past and current events and assumptions. Some estimates are sensitive because of their significance to the financial statements and the fact that future events affecting them may differ from those expected.

Disclosures in the financial statements are neutral, consistent and clear. Certain disclosures are more sensitive than others due to their relevance to the users of the financial statements.

Difficulties Encountered During the Audit

No difficulties were encountered during the audit.

Corrected and Uncorrected Misstatements

Professional standards require that the auditor accumulate all known and likely misstatements identified during the audit, other than those the auditor believes to be trivial. The adjustments identified during the audit have been communicated to management and management has posted all adjustments.

Disagreements with Management

A disagreement with management is defined as a financial accounting, reporting or auditing matter, whether or not resolved to our satisfaction, which could be significant, individually or in the aggregate to the financial statements or the auditors' report. We had no disagreements with management during the audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated as of the date of the audit report.

Management's Consultations with Other Accountants

From time to time, management may decide to consult with other accountants about audit and accounting matters. Should this occur, professional standards require the consulting accountant to communicate with us to determine that they have all the relevant facts. To our knowledge, there were no consultations with other accountants during the year.

Significant Issues Discussed or Subject to Correspondence with Management

From time to time auditors discuss significant issues with management such as business conditions affecting the entity, business plans and strategies that may affect the risk of material misstatement and the application of accounting principles and auditing standards. The issues discussed during the audit occurred during the normal course of our professional relationship and our responses were not a condition to our retention.

Other Reports

Other information that is required to be reported to you is included in the Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards. Please read all information included in that report to ensure you are aware of relevant information.

Appendix II Management Comments

In planning and performing our audit of the financial statements of Marcellus Community Schools as of and for the year ended June 30, 2008, we considered Marcellus Community Schools' internal control over financial reporting (internal control) as a basis for designing our audit procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

However, during our audit we became aware of several matters that are opportunities for strengthening internal controls, improving operating efficiency and reducing expenses. This letter does not affect our report dated November 10, 2008, on the financial statements of Marcellus Community Schools. Our comments and recommendations regarding those matters are:

Prior Year Findings and Status

In the prior year audit we noted several issues regarding Debt Fund Cash, Combining of Federal and State Revenues, Journal Entry Support, Segregation of Duties, Preparation of Form 941, Disbursement Controls, Check Number Sequence, Interfund Balances, and Budget Amendments. We are pleased to announce that these issues have been resolved.

Current Year Recommendations:

Financial Statement Preparation Controls

In conjunction with our audit, we have been contracted to prepare the financial statements and related disclosures based on the information provided to us by Management. We would like to stress that this service is allowable under AICPA ethics guidelines and may be the most efficient and effective method for preparation of the Organization's financial statements. However, if at any point in the audit we as auditors are part of the Organization's control system for producing reliable financial statements, auditing standards indicate that the Organization has a control deficiency. If Management is not able to prepare financial statements, including disclosures, and the auditors are contracted to prepare these statements, this is considered a control deficiency. We recommend that Management and those charged with governance evaluate and document their decision on the costs and benefits of whether to contract for this service with our firm.

Documentation of Internal Controls

As part of our audit planning procedures, we are required to obtain an understanding of internal control of the Organization. Part of the internal control process is the communication of information, including the communication of how internal controls are designed and operating. During our audit planning procedures we noted that documentation of internal control policies and procedures was incomplete. We recommend that the Organization completely document and disseminate all internal control policies and procedures in one document. This ensures that all employees understand what their responsibilities in internal control are. In addition, it ensures continuity of internal control procedures in the unfortunate event of employee turnover or unexpected absence. Documentation should not only indicate the flow of documents but also

what internal control procedures are performed by each employee and what documentation is required to indicate a procedure was completed. The monitoring process should also be documented in this procedures manual, including who is responsible for monitoring, the minimum monitoring which must be done, and what documentation is required to indicate monitoring was performed.

Budget Appropriations Act

During our review of the District's compliance with laws and regulations, we noted that the District does not prepare a formal original and final appropriations act for budget approval for each fund. The budget is included in the Board packets and approved at the Board meetings. We recommend the District prepare a formal original appropriations act and present it to the Board for approval of all original budgets. We also recommend the District prepare a formal final appropriations act and present it to the Board for approval of all final amended budgets.